

SHORT REVIEW ON EUROPEAN TURISM IN 2010 THROUGH THE INFLUENCE OF THE FINANCIAL CRISIS

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The aim of the present research paper is to present a short review on the European tourism in 2010 through the influence of the financial crisis. The importance of the paper resides in the presentation of the impact that the economic downturn had on the European tourism, taking a closer look also in the investment in hotel industry in 2010. The paper's objectives took into consideration the current situation and by proposing the rural tourism as an alternative we offer a solution in order to minimise its effects on this specific activity sector. The subject has not been extensively debated in the specialized literature even though it represents a current issue both regarding the private business environment as well as the main national and international bodies that regulate the tourism industry. The research methodology consists in a SWOT analysis through which we prove the rural and ecotourism to be a viable solution in order to minimise the downturn of the industry for countries in CEE. The added value of the paper consists in the analysis of a subject that is too little taken into consideration and of big importance for the companies acting in this specific domain.

Key words: european tourism, financial crisis, rural tourism, ecotourism

JEL codes: L83, M16, R19, Q01

1.Introduction - International tourism in 2010 and the financial crisis

After a few years of healthy growth, the year 2009 represented a turning point for the european tourism, the hotel and leisure industry due to events such as government down-comes, the credits crisis and the increase in unemployment which lead the national economies into recession, leaving fewer money available for leisure trips and other forms of leisure.

Meantime, the corporations have implemented cost cutting measures including the amount of air travels for their employees and decreases up to elimination the group meetings in famous brand hotels and resorts. In spite of the turmoil registered in the period 2009-2010 the european turism has recovered spectacularly, even if the effects of the financial crisis have still been felt through the shortening of the traveling time and the reducement of the allocated budget.

The decreasing of the revenues has led to the lowering of the tourist consumption by shifting the demand towards similar tourist destinations in terms of motivation but different regarding the price level. According to the European Travel Monitor the number of out bond trips made by Europeans rose by 1% in the period January-August of last

year, while the hotel occupancy degree has fallen by 2%, due to the lowering of the spendings by 3%. According to the same source's forecast 2011 will register a rise in the outbound tourism compared to the period mentioned above. The short-term travel to the European region have stagnated and the long term ones have risen by about 3%, this phenomenon being explained on the basis of one of the tourism demand determinants: the distance of travel.

The latest information on tourism development in 2010 shows that 2011 will be a fruitful one for the whole sector, but the trend, although increasing, in terms of value shows that the performances from 2008 will not be achieved just yet. The signals remain positive due to the massive growth of liquidity resulted from the closure of the last financial year. The existing liquidity will allow future investments. At the macroeconomic level the indicators show positive trends and the economies of emerging countries are becoming stronger. Taking into account the risk of indebtedness that still hangs on the economies of the EU (after the failure of Greece and Ireland, suspicions are hanging over Portugal and Spain), The European Travel Commission has predicted for 2012 an overnight increase in visitors by about 4% in the European Union.

2.Literature review

The subject has not been extensively debated by the specialized literature even though it represents a current issue both regarding the private business environment as well as the main national and international bodies that regulate the tourism industry.

We must take into consideration the effects of the economic crisis may have on short term (eg. changes in consumer behavior regarding tourism), but also, most important the long term changes. Therefore, "the macroeconomic environment as sketched by international financial and other institutions can be useful in providing the necessary background information to understand how tourism industries can react to these challenging times and to consequently perform short- and mid-term projections." (Papatheodorou, A., Rosselló, J. and Xiao, H. 2010: 41)

Even though the world economy has faced a series of economic crisis, however, the specialised literature has mostly analyzed the financial and monetary implications and has focused less on their influence on the tourist flows. After a short period of time following the break of the financial Asian crisis a series of specialised books and articles have appeared regarding this subject but the approach from the tourist point of view has been long expected (Pine, R., Chan, A. and Leung, P. 1998: 252-256.), (Leiper, N. and Hing, N. 1998: 245-251), (Prideaux, B. and Kim, SM. 1999: 523-532).

As a consequence, the causes and implications of the crisis for Asia as a whole and for individual countries have been widely discussed from an economic perspective but the impacts on tourism are relatively under-researched. The academist (Igor Mladenović 2009: 51-58) was a pioneer that addressed the impact of the current global economic crisis, driven by the real estate and banking crisis in the United States of America on tourism in the Balkan countries. We can also identify impact studies and reports on tourism conducted by authorized institutions of the European Commission (European Travel Commission 2010) or belonging to consulting firms such as Ernst & Young (2009) that have analyzed the trend of tourist flows in the period 2008-2011.

3. Financial crisis and the investments in hotel industry in 2010

The global financial crisis is bound to exert a major impact on the development for countries, affecting different international resource streams such as: private capital flows such as FDI, portfolio flows and international lendings, official flows such as: the financial development institutions, the financial development transfers, the capital transfers and current transfers such as: assistance and official development payments. For the European region, the crisis was most visible in January 2009 when retail sales, excluding cars and construction, have decreased by 3.5%. Tourism Economics, a company owned by Oxford Economics stated in their newspaper „The Financial Crisis and the implications on European tourism" for the European Transport Commission that the consumption is declining both in 2009 and in 2010 by 1.7% and respectively 0.1%".

Almost all the European countries in the Euro zone have introduced tax incentives to support the domestic demand. The combined sizing of these sums amounted to about 1% of the gross domestic product. However it was unlikely that these measures would produce a major increase in domestic demand for goods and services before the end of the year and their effect was negligible. The tax incentives and the normal operation of automatic stabilisation caused a significant deterioration in the governmental fiscal balance so that in the Euro zone the fiscal deficit reached 4.3% of the gross domestic product in 2009 being projected to increase by 5% in 2010.

The responses of the tourism sector opposite to the financial crisis are the reactions of the government due to the existence of certain promotional campaigns as well as the response of the private sector to the performed actions. National tourism offices in all countries have suffered as the level of promotional funds decreased with the devaluation of local currencies.

Noting the earlier responses to the crisis offered by both the private and the public sectors as well as the individuals it is noticeable that the short-term strategic plans have assumed a higher level of importance than the long-term considerations. Individual consumer responses are the most visible and can be measured by the decline of tourist activity, both locally and internationally. The uncertainty about employment and worries about the ability to meet future financial obligations can be the primary reasons that explain the reduction in tourism activity. (Mladenovic 2009: 52).

Governments often exert a negative impact on tourism withdrawing funds during some austerity campaigns and giving in to the temptation to raise taxes. The analysis of the responses to the crisis offered by both the public and the private sectors indicates that there are some key strategies for maintaining tourism at a limited level. Firstly we have ensured the political stability. In fact, the past experience has shown us that governments have been installed through a peaceful transfer of power from previous administrations.

A second successful strategy is the reassessment of promotional priorities to increase tourism in countries that have not been affected by the crisis (Mladenovic 2009: 56). The success of this strategy was visible in the case of Australia, Korea and Thailand. Under this strategy there is the need for governments to maintain or increase expenditures. There is also a corresponding need for the private sector to increase the level of promotion both through collaboration in national campaigns as well as through individual actions with foreign distributors.

In conclusion, we can say that, in accordance with all these experiences, the European tourism industry is facing significant challenges. That is, with the reduction of capital

inflows in European countries due to the crisis in the countries of origin of capital, the exchange rate regimes have become more vulnerable.

The financial crisis has driven more than ever to the reduction of credits for projects of new hotels and 2009 has registred very few investment projects in this area. The refinancing strategies, which are usually available for real estate companies, have often been used for other purposes than for hotels - the property is in most cases difficult to reconvert or relocate while for most companies these factors are not tied to the company's success. The restructuring strategies have therefore been focused on optimizing the existing properties rather than on rescue plans in the area of major pipeline development. The remedies must be designed to stabilize the situation of long-term revenues for the owners.

It is likely that in future the low-budget and the 3-4 star accommodations be promoted, especially in areas where previously there were gaps such as in India as well as before large events like the Olympic Games in London and Sochi.

According to the report done by BNP Paribas Real Estate the investments in the hotel industry began to grow in 2010, they recorded a total volume of 6.6 billion euros in the five countries analyzed (France, Spain, Italy, Great Britain and Germany) an increase of approximately 110% compared to 2009 when they recorded a 3.1 billion euro volume.

The investment volume in tourism in the EU increased in 2010, but has not yet reached its peak from 2006 (20 billion euros) being marked by two major transactions: the acquisition of the group Norgani by the group Pandox and the single asset transaction of Grosvenor House. Grosvenor House in London was bought by Sahara India Pariwar, belonging to the Royal Bank of Scotland for a price of 550 million euros, about 1.1 million per room. Last year there were 80 transactions, totaling 589 hotels, 60,000 rooms. Geographically speaking, Britain has remained the most active investor on the European hotel market with a total volume of 1.9 billion euros, followed by Scandinavia (1.2 billion euros), France (772 million euros), Spain (680 million euros) and Germany (200 million euros)".

4. Research methodology

Given the present situation of the industry we propose a SWOT analysis on the tourist market from CEE as research methodology in order to identify some niche tourist products and to propose them to the bidders in the private sector.

SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> - the variety and diversity of the tourist resources, both natural and anthropogenic; - the geographical diversity: mountains, hills, plains and sea; -the diversity of the tourism potential: protected areas, national parks, caves, hunting and fishing, unpolluted areas, culture, etc. -increasing the interest in agro-tourism -the existence of cultural and historical relics in the region -the vast majority of countries in the Central 	<ul style="list-style-type: none"> - the lack of local infrastructure that hampers the access for tourists (poorly developed road infrastructure, airports that need massive investment in order to upgrade the technology, the obsolete rail infrastructure) -the inadequacy of the tourist offer to the consumer requirements, especially the poor quality of accommodation and restoration. -the lack of tourist information and promotional materials of the touristic offer; -the lack of qualified personnel in the tourism

<p>and Eastern Europe as members of the EU develop regional plans for sustainable tourism development</p> <p>-good conservation of inherited traditions and customs</p>	<p>services;</p> <p>-the low information and promotion of tourism jobs available;</p> <p>-the cultural rigidity</p> <p>-the lack of local capital</p> <p>-the delays in private funding of tourism utilities</p> <p>-the existence of large accommodation units with poor architecture</p>
OPPORTUNITIES	THREATS
<p>-the increase in the number of visitors in the region due to the free movement of persons</p> <p>-the need to conserve and protect nature through an organized tourism sector that respects sustainable development (eco-tourism)</p> <p>-Creating economic and social complementarities on the terms of industrial regress and agriculture stagnation;</p> <p>-Ecological reconstruction through tourism of habitats, affected by other forms of economic exploitation like mining or agriculture</p> <p>-accessing ERDF European funds in order to realise the regional specialization in tourism;</p> <p>-the involvement of the local population in the development of rural tourism by preserving the traditions and customs;</p> <p>-the possibility of exploiting the natural potential in order to achieve a kind of eco tourism.</p> <p>-the discovery of alternative sources of fuel and energy and their ability to capitalize them in the touristic sector</p> <p>-the emergence and development of private property as well as other mechanisms (eg concession) of ownership of movable assets</p> <p>-the entrance of the main integrated hotel chains on the market</p> <p>-the openness to new sources of financing of the touristic sector (credit, leasing)</p>	<p>- strong competition</p> <p>-the negative image of tourism generated by the communist period</p> <p>-the deterioration of tourist resources due to inadequate exploitation and development of other forms of competitive economic capitalization (industry, agriculture)</p> <p>-the reduced competitiveness of the inbound tourism offer compared with the outbound offer</p> <p>-the low regulatory legislation.</p>

Given the SWOT analysis carried out above we propose two types of “niche “ tourism in order to overcome the financial crisis in the Central and Eastern Europe area : the rural tourism and the ecotourism.

Rural tourism is a "form of tourism that includes any tourist activity organized and led in rural areas by the local population, harnessing the local tourism resources (natural, cultural, historical, human) as well as the facilities, tourist establishments, including hostels and agro farms"(WTO). The specific features of rural tourism are: location in rural areas, touristic functional design of the construction, open space, contact with nature, tradition, organization and traditional practices, traditional character - gentle

growth, organic as compared with the family, diversity and forms of presentation. According to (Page and Getz 1997: 3) rural tourism is much more than “countryside”. The impact of rural tourism is social and also cultural, not only economical. Butler and Clark, 1992 cited by (Page and Getz 1997: 12) consider that the impact of rural tourism on development of the respective area is to be analyzed in relation to “income leakage, multipliers, labor issues, the limited number of entrepreneurs in rural areas, the proposition that tourism should be a supplement to rather than the mainstay of rural economies”.

In order to better understand the term of ecotourism one must first define the following concepts: responsible tourism, green tourism, geotourism. "The responsible tourism" is the fact that all those involved in tourism activity, tourists and service providers must adopt a responsible attitude towards tourist destination. "Green tourism" is often used as a non-academic version of sustainable tourism and "Geotourism" is the form of tourism that supports or enhances the geophysical characteristics of a space - the environment, culture, aesthetics, heritage and population welfare.

A tourism project or product must meet four criteria (to be held in the natural and cultural spaces, to encourage the involvement of local labor, to involve conservation measures and to support local welfare.) in order for it to be an authentic ecotourism product. Of course, we cannot say that tourist services which do not include all four components always have a low quality, just say that it is not an ecotourism activity. We propose to include these types of tourism in the offer of countries of CEE due to the poor local and international development and due to the great potential that it presents. The choice made is based also on financial and technical reasons given the present market funding sources (public sources: money from the EBRD and non-refundable funds: ERDF and private sources: capital contribution, loans or leasing).

5. Conclusions

1. *As it is well known there are two categories of factors that motivate tourist demand: endogenous factors (motivation, income and free time) and exogenous factors.* People travel because they are: activated as a result of the action of internal factors (push factors) and attracted as a result of external factors, dependent on the destination features (pull factors). Traditionally, activation factors explain the desire to go on holiday, while the attractiveness factors explain the choice of destination. The activation factors are: socio-psychological reasons, explain the desire to go on holiday, their action - refers to any destination on the tourist market and the attractiveness factors: motivations determined by a particular destination, explain the choice of a destination; their action - refers to a specific destination on the tourist market. That being said, it is observed that in 2010 in tourism the predominated type of factors in choosing a tourist destination were the pull factors.

2. *Considering the touristic offer and also the touristic potential of the European countries we have identified the following potential niche market from which we have chosen to detail only two elements: rural tourism and ecotourism.*

3. *The major obstacle in the way of the development of the hotel industry from Europe versus the opportunities*

It has become increasingly obvious that fact that the region of Europe especially CEE represents a very attractive location for the international hotel chains, not only for the

luxury sector but also for the middle section or the budget section. However, foreign companies look with skepticism onto this market mainly due to the following factors: political instability, lack of local capital, uncertainty of the property right and lack of infrastructure (here we refer to Central and Eastern Europe). In terms of **political stability**, there are signs that the established democratic regime is respected and it acts according to the criterion of freedom of decision. What remained to be done now is to carry out awareness campaigns for possible investors about the real state of the new democratic states. Regarding the second barrier, **the eradication of corruption** is much more difficult to fulfill. Two international chains such as Accor and Bass have made ambitious investments in the region, their success being a starting point for their competitors. **The lack of local capital** cannot be changed overnight, although there are positive signs from the creation of institutions that could help local investors in the hotel industry. For example, the countries that have recently joined the EU, as is the case of Romania, have benefited from the help of the EU pre-accession and structural funds meant for the reconstruction and elimination of disparities compared to the other members of the Union. Regarding **the ambiguity of property** it exists in many new countries that have joined the European Union. **The infrastructure** has also benefited from the European Union funds (ISPA and Transport SOP) with which there have been rehabilitated whole kilometers of rail and road infrastructure. A still weak point of this problem is the motorway network that is still underdeveloped in the region. All these barriers identified in this study must be removed in order to ensure the continuity and sustainability of the hotel business. The present work provides a remarkable contribution to the literature in this field. It may be one of the few sources of information on the influence of the present financial crisis on tourism, especially on the hotel industry and a starting point for potential investors in the tourism sector in Central and Eastern Europe. There are presented two niche tourism products: rural tourism and ecotourism through whose regulation and practice there will be an increase in the number of inbound visitors but especially outbound ones in the analyzed region. One must keep in mind that the two products mentioned above represent a priority of the European Commission in order to realise a sustainable tourism and to accomplish the objectives of the legislative package on climate change due to pollution.

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